

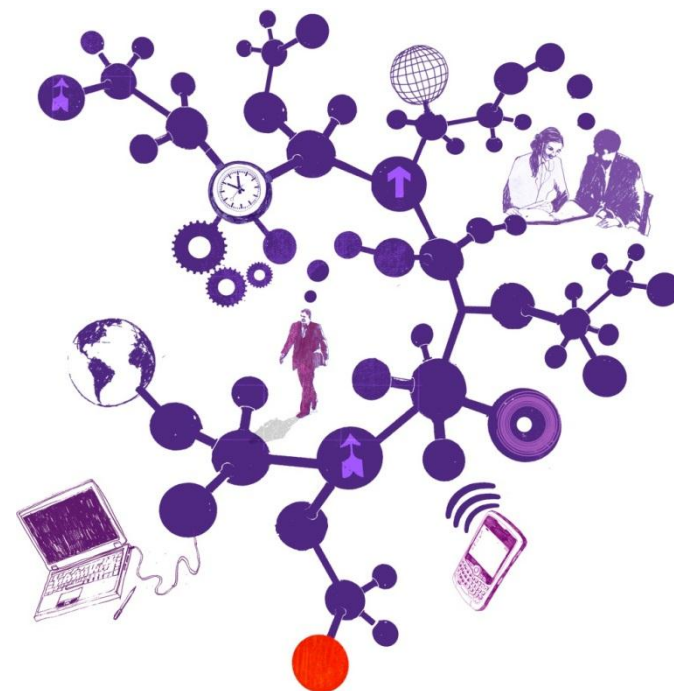
The Audit Plan for Cheshire Fire Authority

Year ended 31 March 2013

April 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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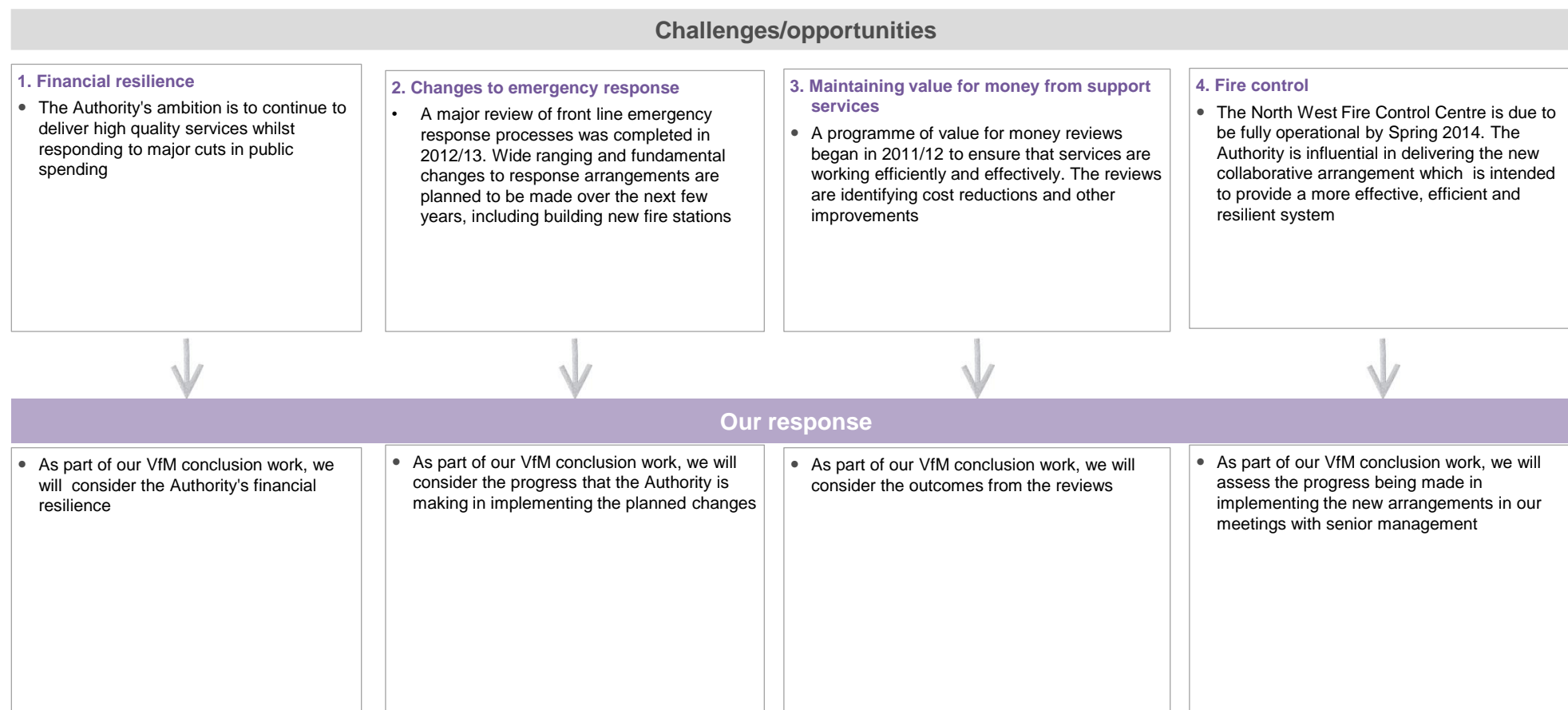
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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Authority is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial reporting and Whole of Government Accounts (WGA)

- Continuing debate about the treatment of the pension fund top-up grant. Changes to the CIPFA Code of limited significance to Fire authorities
- The Authority is required to submit a Whole of Government accounts pack

2. Policy developments

- New Fire & Rescue national Framework published in July 2012
- New Statement of assurance to be published annually

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

4. Pensions

- The Government has announced the broad thrust of its response to the Hutton Report and the changes it plans to make to fire-fighters pensions from 2013/14
- There are changes in 2013/14 to the Local Government Pension Scheme (LGPS)

5. Financial pressures and efficiency

- Spending Review means reduction in Fire spending, with the changes back-loaded
- Operational efficiency review of the fire service due to report Spring 2013

Our response

- We will continue to liaise with you, CIPFA and the Audit Commission on the accounting treatment of the pension fund top-up grant
- We will test the Authority's compliance with the CIPFA Code of Practice
- We will comply with any audit submission requirements for your WGA pack

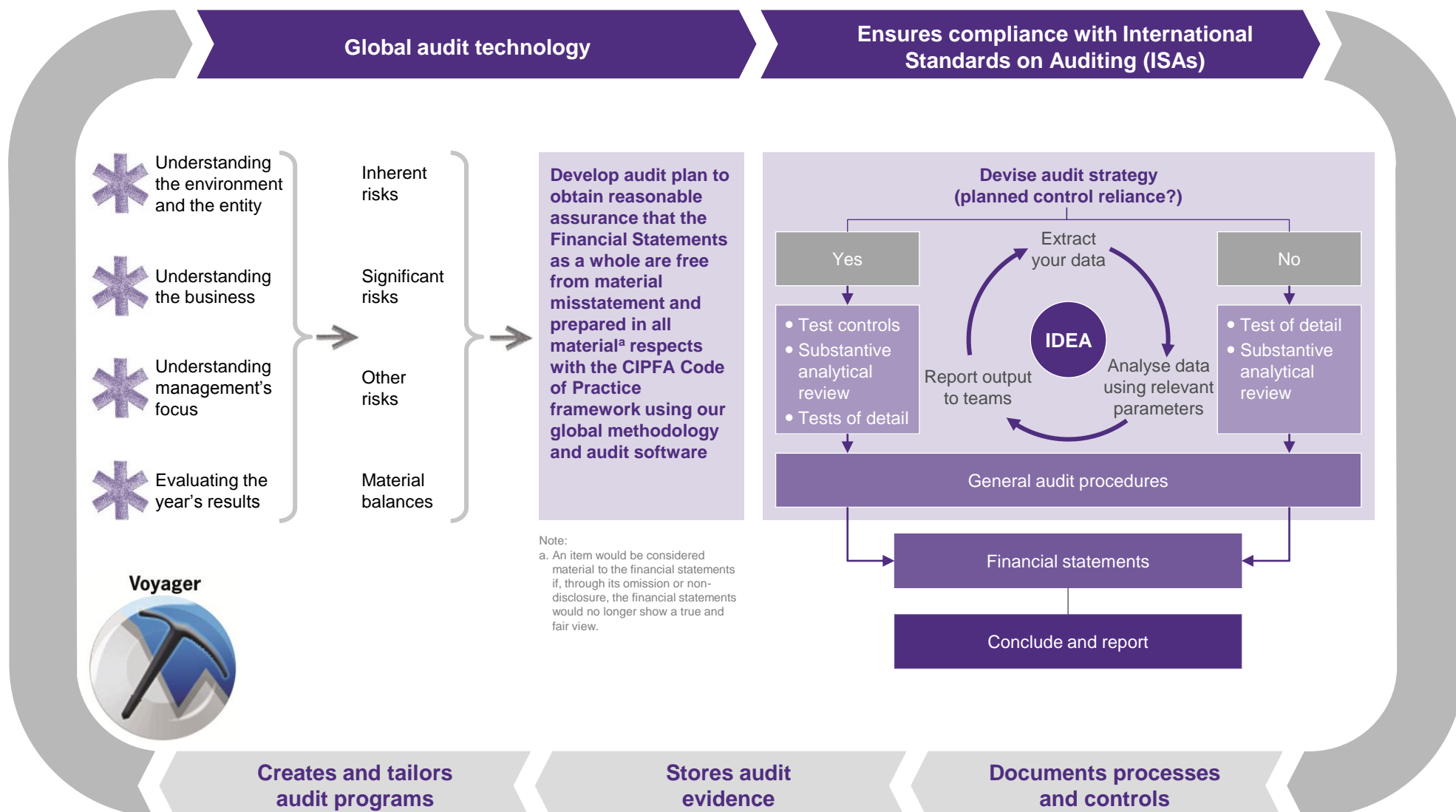
- We will assess the impact of new policy developments, including the new assurance statement, at our regular meetings with senior management. We will provide a view where appropriate

- We will review the arrangements the Authority has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

- We will assess how the Authority is planning to deal with the impact of the pension scheme changes through our meetings with senior management

- We will review the Authority's performance against the 2012/13 budget, including consideration of performance against the savings plan
- Our VFM conclusion will include an assessment of the Authority's financial resilience
- We will assess the Authority's response to the Operational efficiency review with senior management once the report is published

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses understated	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses not correct	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	No	Property, Plant and Equipment	Low	None		×
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	No	Investments	Low	None		×
Return on Pension assets	Yes	Employee remuneration	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Impairment of investments	No	Investments	Low	None		×
Income from council tax	Yes	Revenue	Low	None		✓
Other Government grants	Yes	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Low	None		✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Low	None		✓
Intangible assets	No	Intangible assets	Low	None		×
Investments (long & short term)	Yes	Investments	Low	None		✓
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		×
Inventories	No	Inventories	Low	None		×
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	Provision	Low	None		✓
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓
Income to the firefighters' pension fund	Yes	Firefighters' pensions	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Spending by the Fund	Yes	Firefighters' pension	Medium	Other	Payments to pensioners incorrectly calculated	✓
Top up grant receivable	Yes	Grant income	Low	None		✓
Net current assets and liabilities	Yes	Firefighters' pension	Low	None		✓

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Work completed to date: <ul style="list-style-type: none">• Discussed with management and assessed the controls in place to prevent and detect fraudulent transactions• Completion of entity level control evaluation Further work planned: <ul style="list-style-type: none">• Review and testing of revenue recognition policies• Testing on material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	Work completed to date: <ul style="list-style-type: none">• Discussion with management and evaluation of responses. Further work planned: <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Operating expenses understated	<ul style="list-style-type: none">• Documentation of processes and controls• Evaluation and walkthrough of controls	<ul style="list-style-type: none">• Selection of a sample of expenditure items for substantive testing
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none">• Documentation of processes and controls• Evaluation and walkthrough of controls	<ul style="list-style-type: none">• Selection of a sample of expenditure items for substantive testing• Detailed review and testing of year end accruals and creditor balances
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none">• Documentation of processes and controls• Evaluation and walkthrough of controls	<ul style="list-style-type: none">• Possible testing of key controls• Selection of a sample of expenditure items for substantive testing
Firefighters' pensions	Payments to pensioners incorrectly calculated	<ul style="list-style-type: none">• Documentation of processes and controls• Evaluation and walkthrough of controls	<ul style="list-style-type: none">• Substantive testing of payments made to pensioners

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Authority's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
Internal audit	We have reviewed internal audit's overall arrangements. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Authority.	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Authority and that we can take assurance from their work in contributing to an effective internal control environment at the Authority.
Walkthrough testing	Walkthrough tests have been completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	<p>In-year internal controls were observed to be operating in accordance with our documented understanding. We reported two issues to the Head of Finance:</p> <ul style="list-style-type: none">• that the reconciliation of the general ledger to the payroll reports provided by the service provider is no longer being performed. The Head of Finance will ensure that the reconciliations are completed as part of the year end process; and• that the Head of Finance is able to raise journal entries. The Head of Finance considers that this is necessary for business continuity because of the small size of the finance team. He states that he has not raised any journal entries in 2012/13. <p>We have not yet completed our evaluation of how the Authority assures itself that appropriate controls are in place at its payroll and pensions service provider to ensure that calculations are being made correctly. We will provide an update on this issue in our Annual Governance Report.</p>

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Review of information technology (IT) controls	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. This will include a follow up of the issues raised in the previous year.	Any issues arising from the high level review will be brought to the attention of officers and the Authority, if required.

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Authority's priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to the Authority or appropriate Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Authority on a review-by-review basis.

Code criteria

The Authority has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Authority is prioritising its resources with tighter budget

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- review the 2011/12 VfM conclusion
- review the 2012/13 Annual Governance Statement
- review the 2013/14 Integrated Risk Management Plan and key financial reports
- review of reports by other regulators and external bodies
- discuss the Authority's VfM arrangements with officers
- review any relevant work or reports of Internal Audit
- do specific work in response to any risks identified during the audit

Logistics and our team

The audit cycle



Our team

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Date	Activity
January/ February 2013	Planning meetings
March 2013	Interim site work
17 April 2013	The audit plan presented to the Authority
1 July 2013	Year end fieldwork commences
31 August 2013	Audit findings clearance meeting
September 2013	Authority meeting to report our findings
By 30 September 2013	Sign financial statements and VfM conclusion
By 31 October 2013	Issue Annual Audit Letter

Fees and independence

Fees

	£
Authority audit	39,813
Total	39,813

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Authority and its activities have not changed significantly
- The Authority will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, whilst The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Authority.

Appendix A provides the Authority with a summary of emerging national issues and developments that may be relevant to you as an Authority. The summary includes a number of challenge questions in respect of these emerging issues which you may wish to consider.

Members can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Authority's key risks when reaching our conclusions under the Code.

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Emerging issues and developments

Accounting and audit issues

Provisions

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', the criteria for recognising a provision is that there is:

- a current obligation as a result of a past event;
- a transfer of economic benefit is probable; and
- a reliable estimate of the liability can be made.

We wish to highlight the following matters to you for consideration where a provision may be required:

- Mutual Municipal Insurance – the Scheme of Arrangement was triggered in November 2012, therefore it is now virtually certain that there will be a transfer of economic benefit. If this liability has not been discharged by 31 March 2013, we would expect local authorities to recognise a creditor or, if the timing or amount of the payment is uncertain, a provision in their financial statements.
- Equal pay - in October 2012 the supreme court ruled that more than 170 former Birmingham City Council employees can make equal pay claims. This effectively extends the time workers have to bring equal pay compensation claims from six months to six years. We would expect local authorities to consider whether they have received any additional claims and, where the criteria set out in IAS 37 have been met, recognise a provision.
- Redundancy costs –the recognition point for termination benefits fall under IAS 19 'Employee Benefits'. This is generally earlier than the IAS 37 recognition criteria for restructuring which requires that a valid expectation has been raised in those affected. The requirement in IAS 19 is that the entity is 'demonstrably committed'.

Questions for members to consider:

- Has your Head of Finance considered the need for additional provisions for the above matters?

Emerging issues and developments

Grant Thornton reports

'Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities '

In December 2012, Grant Thornton published ['Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities'](#). Although this report was produced on the basis of information from local authorities, the messages in this report are still relevant to you.

This financial health review considers key indicators of financial performance, financial governance, strategic financial planning and financial controls to provide a summary update on how the sector is coping with the service and financial challenges faced. The report provides a summary of the key issues, trends and good practice emerging from the review.

Questions for members to consider:

- Have you considered the findings of the report?
- Are there any issues that relate to your authority and what action are you going to take?

Emerging issues and developments

Local government guidance

'Tough Times: Councils' financial health in challenging times'

In November, the Audit Commission published ['Tough times 2012: Councils' financial health in challenging times.'](#) This is the second report it has produced looking at how councils are dealing with the issues from the Spending Review and focuses on the financial health of councils. Although this report was produced on the basis of information from local authorities, the messages in this report are still relevant to you.

The report finds that councils generally delivered on their planned savings, however, auditors reported that signs of financial stress were visible.

Questions for members to consider:

- Have you considered the findings of the report and any actions required?

'Protecting the public purse 2012'

In November, the Audit Commission published ['Protecting the public purse 2012: Fighting fraud against local government'](#). The report provides the results of the Audit Commission's annual survey of English local government bodies. Although this report was produced on the basis of information from local authorities, the messages in this report are still relevant to you. It finds that local government bodies are targeting their investigative resources more efficiently and effectively. Local government bodies detected more than 124,000 cases of fraud in 2011/12 totalling £179m. It also reports that new frauds are emerging in areas such as business rates, Right to Buy housing discounts and schools.

The report includes a checklist for those charged with governance to use to review their counter-fraud arrangements.

Questions for members to consider:

- Have you considered the findings of the report?
- Are there any issues that could relate to your authority and how are these being dealt with?
- Have you reviewed your existing arrangements for tackling fraud?

If you have any fraud queries, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Local government guidance

Operational efficiencies review

During January to March 2013, there is to be a [review into the operational efficiency](#) of the services delivered by fire and rescue authorities in England by Sir Ken Knight, the outgoing Chief Fire and Rescue Adviser. A final report is to be presented to Ministers in Spring 2013.

The review will look at options for savings both within and beyond the current Spending Review period including through:

- Firefighter training
- Flexible staffing and crewing arrangements
- The use of retained firefighters
- Procurement
- Shared services
- Collaboration with emergency services and other organisations on service delivery and estates
- Sickness management
- Sharing of senior staff
- Locally led mergers and operational collaborations
- New Fire-fighting technology
- Preventative approaches
- Working with local businesses

Fire and rescue authorities have been invited to put forward their views.

Challenge questions:

- Are your officers going to contribute to the operational efficiencies review?



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